THE INSTITUTIONAL FRAMEWORK

"All natural resources in the soil and the waters of the country are under the jurisdiction of the State and shall be used for the greatest benefit and welfare of the People."

-Article 33, Indonesian Constitution

The government is the central figure in Indonesia's energy sector, although private companies play a major role. The Oil Law of 1960 states that only national enterprises may exploit petroleum and natural gas. All energy activities dealing with petroleum and gas fall under the Ministry of Energy and Mineral Resources, renamed in 2000 from its previous Mines and Energy title, which is charged with creating and implementing Indonesia's energy policy. The Ministry of Energy and Mineral Resources is divided into several directorates.

MIGAS

The Directorate General of Oil and Gas (MIGAS), a subdivision of the Ministry of Energy and Mineral Resources, is responsible for all aspects of the petroleum industry. MIGAS controls petroleum regulations, development and employee training.

Pertamina

Pertamina, the state-owned oil and gas company, is responsible for production of oil and gas. It is required by a national law to supply the nation with adequate petroleum products. This is carried out through Production Sharing Contracts and in cooperation with joint venture partners. Five regional offices regulate exploration and development activities. With nine refineries, Pertamina is responsible for downstream oil activities as well.

Under government regulation, Pertamina is in charge of all petroleum ventures for Indonesia. Its Foreign Contractors Management Body (BPPKA) has primary responsibility for managing foreign investors. It is responsible for contractors' budgets, work programs and future contracts.

At the same time Pertamina's future role was being discussed by the Indonesian Parliament in 1999, the state oil company's reputation was tarnished by a PriceWaterhouseCoopers audit, which found that Pertamina had lost billions of dollars between April 1996 and March 1998 through corruption and inefficiency. Pertamina has reviewed the audit's recommendations. Pertamina also designated 1999 as a transition period, during which Pertamina was to be reorganized to enact its new "performance-based mission." On February 28, 2000, former Caltex President Director Baihaki Hakim was appointed Pertamina president. He has expressed his intent to continue with Pertamina's restructuring. Under the draft oil and gas law submitted to Parliament in October (passage of which is uncertain), Pertamina will have a transition period of two years to transfer its regulatory functions to government agencies and transform itself into a state-owned, limited liability corporation (persero).

In October 2000, Pertamina's Board of Commissioners submitted to the

President a blueprint for Pertamina's restructuring to eliminate Pertamina's inefficiencies, its monopolistic status, and the conflict of interest brought about by its control over licensing. The Ministry of Energy and Mineral Resources is awaiting a presidential decree to implement the blueprint. With the authority of the Presidential Decree, Pertamina could accelerate its reform in advance of passage of the oil and gas bill into law.

To date, Pertamina has canceled or retendered over 152 contracts with former President Soeharto family members and associates, and ordered them to sell their stakes in oil and gas projects as part of the government's drive to root out corruption, collusion and nepotism (KKN). In 2000, however, Pertamina continued to face allegations of corruption, with the latest charge occurring in October when a Supreme Audit Board official claimed that an audit of Pertamina's 1999 financial statements uncovered accounting irregularities amounting to a Rp 2.5 trillion loss.

Other Agencies

Other government agencies responsible for Indonesia's petroleum sector include:

- National Energy Policy Coordinating Board (BAKOREN) – chaired by the Minister of Energy and Mineral Resources; shapes Indonesia's energy policy;
- The Energy Resources Technical Committee (PTE) – performs research on technical sites to better inform BAKOREN;
- The Electric Power Generation Development Team – oversees the generation of power for the country;
- Indonesian Parliament – through Commission VIII, works on issues related to Indonesia's energy sector.

Production Sharing Contracts

In 1966, the government set up a type of agreement between Pertamina and its foreign partners known as the Production Sharing Contract (PSC).

Under the terms of the PSCs:

- Pertamina manages the operations of the contractor;
- Contractors pay a bonus when the PSC is signed (not cost-recoverable);
- Contractors provide all funds to conduct operations;
- Contractors recover start-up costs only after commercial production begins;
- Contractors pay Indonesian income taxes, and Pertamina reimburses the contractors for other taxes paid in conducting operations;
- PSCs allow for 6 to 10 years exploration and 30 years total terms;
- For most PSCs, the profit-sharing split is on a net income basis of 85/15 (government/contractor) for oil, and 70/30 for gas.

Additional Contracts

Pertamina uses various other contractual arrangements to deal with petroleum contractors.

Technical Evaluation Agreements (TEA) give oil companies access to Pertamina data on seismic or other petroleum-related information for possible exploration use.

Technical Assistance Contracts (TAC), Joint Operating Agreements (JOA) and Enhanced Oil Recovery (EOR) contracts are used for Pertamina's own oil fields. Pertamina may hire a contractor to produce oil in a field on its behalf, with a specified amount of petroleum going directly to Pertamina.

Joint Operating Bodies (JOB), which are applicable only in JOA, are designed to pair Pertamina with a contractor in an area that has previously been worked. This limits exploration costs. Under the deal, the company matches previous expenditures or pays the first three years of work, whichever is greater. Then the field is split 50/50 (government/ contractor).

Fiscal Decentralization Law

In April 1999, the Indonesian Parliament (DPR) and the government reached agreement on a new plan for the sharing of revenues from oil and gas sales between the central and regional governments. Until phase-in of the new fiscal decentralization law in January 2001, 100 percent of the GOI's net oil and gas proceeds will continue to be deposited directly into government accounts. When the law is applied, revenue-sharing formulas call for 15 percent of the GOI's net oil revenues and 30 percent of its net natural gas revenues to be distributed to provincial and district governments. Provinces and districts with both resources will receive both revenue shares. Of the 15 percent of the oil revenue flowing to the regions, 6 percentage points will go to the district of origin (where the PSC is located), 6 percentage points will be shared among the other districts in the province, and 3 percentage points will go to the provincial government. The same relative shares apply to gas revenues.

OPEC

Indonesia joined the Organization of Petroleum Exporting Countries (OPEC) in 1962. Currently an active member, Indonesia has hosted important OPEC conferences in 1964, 1976, 1980 and 1997.

Record crude oil prices in 2000 resulted in two OPEC decisions to increase quotas in 2000, in May and September. When the first quota increase was under consideration, Indonesian officials said Indonesia would accept OPEC's decision to hike collective output by 710,000 b/d in order to regain some control over price movements. Indonesia's preferred price was US $22-28 per barrel, but not below $20/bbl, the level assumed in the state budget for the April-December 2000 fiscal year.

Indonesia's position was to support dialogue in establishing common strategies and strengthening solidarity among OPEC member countries. Because Indonesia opposed any decision not in line with OPEC, then Minister of Mines and Energy Susilo Bambang Yudhoyono called on Saudi Arabia to discuss with OPEC its decision to increase production by 500,000 b/d over the summer.

Indonesia welcomed OPEC's May decision to increase Indonesia's production quota by 37,000 B/D and by another 26,000 B/D if oil prices did not fall. The decisions largely legitimized Indonesia's actual production figures of 1.35 million B/D of crude in 1999 and 1.305 million B/D of crude in March 2000. In July, Indonesia's quota increased to 1.317 million B/D, and, in October, to 1.358 B/D.

OPEC Quota (Million B/D)					
Country	Apr 99	2nd Qtr 2000	July 2000	Sep 9 Increase	October 2000
Saudi Arabia	7,438	8,023	8,253	259.2	8,512.2
Iran	3,359	165	3,727	116.8	3,843.8
Venezuela	2,720	2,845	2,926	92.8	3,018.8
UAE	2,000	2,157	2,219	70.4	2,289.4
Kuwait	1,836	1,980	2,037	64.0	2,101.0
Nigeria	1,885	2,033	2,091	65.6	2,156.6
Libya	1,227	1,323	1,361	43.2	1,404.2
Indonesia	**1,187**	**1,280**	**1,317**	**41.4**	**1,358.4**
Iraq	N/A	2,100	N/A	N/A	N/A
Algeria	731	788	811	25.6	836.6
Qatar	593	640	658	20.8	678.8
TOTAL	**24,692**	**26,487**	**25,400**	**800.0**	**26,200.0**

Source: MIGAS

Other Professional Bodies

IPA

The Indonesian Petroleum Association (IPA) was established in 1971 in response to growing foreign interest in the Indonesian oil sector. Contractors and the government meet frequently to discuss matters such as production ventures and energy economics. The objective of the IPA is to utilize public information to promote the exploration, production and refining aspects of the petroleum industry in Indonesia.

IGA

The Indonesian Gas Association (IGA) was established in 1980 under the sponsorship of Pertamina and key gas producers, Mobil and Huffco. The main objective of IGA is to provide a forum to discuss matters relating to exploration, production, transmission, distribution, processing, utilization and marketing of natural gas and to advance knowledge, research and development in the areas of gas technology. IGA also aims to promote the development of infrastructure and cooperation among producing, transporting, consuming and regulatory segments of the gas industry.

The IGA and the IPA sponsored Indonesia's membership on the Permanent Council of the World Petroleum Congress (WPC).

ACE

The multilateral ASEAN Center for Energy (ACE) is a regional energy center established under ASEAN. Founded effective January 1, 1999, with its head office in Jakarta, ACE grew out of the former ASEAN-European Commission (EC) Management Training and Research Center (AEMTRC). AEMTRC had an objective of strengthening cooperation among the ASEAN member countries and between ASEAN and the European Union in the field of energy. ACE now opens the door to cooperation with other dialogue partners while still maintaining a partnership with the European Commission. ACE works toward: providing a comprehensive assessment of the energy situation in ASEAN; developing a regional framework for national energy programs and policies; and formulating policy recommendations for stronger regional cooperation on energy.